1. **AUDIT TITLE**
2. **Audit of the Cost Representation Statement of USAID Resources Managed by xx, “xx,” Under xx Number xx for the Period from xx to xx**
* *[ Insert the audit title per the audit notification letter]*

Background

* *[Insert a brief background on the project subject to Audit, The background should include a brief description of the nature and activities under the program, the estimated amount of expenditures incurred during the period under audit under the federal share and the non-federal share, if any, the nature of the expenditures (salaries/personnel, program, travel, procurement, etc.)]*

**II. OBJECTIVES**

The objective of this engagement is to audit the locally incurred costs of the contractor/sub-contractor under the above mentioned contract(s)/sub-contract(s).

Locally incurred costs include; (1) costs incurred and paid locally, (2) costs incurred locally and paid in the U.S. if material (the audit firm is responsible for defining the materiality threshold). Locally incurred costs do not include expatriate costs (such as salaries and allowances) paid in the U.S.

The auditors must evaluate and obtain a sufficient understanding of the contractor’s internal controls related to the contract agreements, assess control risk, and identify reportable conditions, including material internal control weaknesses. The auditors must perform tests to determine whether the contractor complied, in all material respects, with contract terms and applicable laws and regulations related to USAID-funded programs that have a direct and material effect on contractor’s cost representations.

**Audit of USAID Funds**

An audit of the subject contractor’s costs shall be performed in accordance with U.S. *Government Auditing Standards*, and the *USAID Office of Inspector General’s Guidelines for Financial Audits Contracted by Foreign Recipients* and accordingly includes such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of the contractor’s incurred costs under each subject contract are to:

1. Express an opinion on whether the contractor's incurred costs for the period audited are allowable, reasonable, and allocable to the contract.
2. Evaluate and obtain a sufficient understanding of the contractor’s internal controls related to the USAID-funded program, assess control risk, and identify reportable conditions, including material internal control weaknesses. This understanding shall include a consideration of the methods an entity uses to process accounting information because such methods influence the design of internal controls.
3. Perform tests to determine whether the contractor complied, in all material respects, with contract terms and applicable laws and regulations related to USAID-funded programs that have a direct and material effect on contractor’s cost representations. All material instances of noncompliance and all indications of illegal acts shall be identified. Such tests shall include: (a) compliance with the prohibition on paying value added tax (VAT) with USAID funds; and (b) compliance with Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*.
4. If applicable, and based on records accessibility, perform tests to determine whether the contractor correctly charged indirect costs to USAID using an authorized provisional or final indirect cost rate. If a provisional rate was used prior to USAID negotiating final rates, determine if the final rate was applied retroactively.
5. Determine if the contractor has taken adequate corrective action on prior pre-award survey, financial review, and audit report recommendations if applicable.

The auditor must design audit steps and procedures in accordance with U.S. *Government Auditing Standards,* Chapter 4, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditor shall contact the Regional Inspector General in Frankfurt (RIG/F) and shall exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.

**III. AUDIT SCOPE**

The auditors shall use the following steps as the basis for preparing their audit programs and their review. They are not considered all-inclusive or restrictive in nature and do not constitute relief from exercising due professional care and judgment. The steps shall be modified to fit local conditions and specific project design, implementation procedures, and contract provisions which may vary from project to project. Any limitations in the scope of work shall be communicated as soon as possible to USAID/WBG. USAID/WBG will try to resolve the issue with the auditee first. If USAID/WBG does not succeed in resolving the matter within a reasonable time, the matter will be referred to RIG/F for decision.

**A. Pre-Audit Steps**

Following is a list of documents and regulations the auditors shall review, if applicable, in preparation of conducting the audit:

1. The Contract between USAID and the contractors identified within Part I of this statement of work, and any amendments to the contract.
2. Subcontract agreements between the subject contractors and each respective subcontractor.
3. The budgets, task or job orders, and written procedures approved by USAID to manage the project.
4. Federal Acquisition Regulation (FAR), Part 31—“Contract Cost Principles and Procedures.”
5. USAID Acquisition Regulation (AIDAR), which supplements the FAR.
6. All project financial and progress reports; and charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary to successfully complete the required work.
7. Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*, and its applicable USAID’s Acquisition and Assistance Policy Directives (AAPDs), Mission Orders, and notices.

**B. Cost Representation Statement**

The opinion on the contractor’s cost representations shall be in accordance with Statement on Auditing Standard (SAS) No. 62 (AU623). The audit must include evaluations of project implementation actions and accomplishments to specifically determine that costs incurred are allowable, allocable, and reasonable under the contract terms, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate controls.

USAID awarded to each contractor a time-and-material contract which provides for acquiring supplies or services on the basis of:

(1) direct labor hours at specified fixed hourly rates that include wages, indirect expenses, and profit; and

(2) materials at cost, including material handling costs, if appropriate.

An important prerequisite to the audit of labor costs is a good understanding of the contract clauses relating to the classes of labor and types of operations to which the contractual rates apply. Since the contract labor rates include indirect labor, indirect costs, and profit, only the hours of workers performing labor directly related to the item services rendered will be considered to be direct labor. The basis upon which the direct labor hours are computed and charged must be acceptable and subject to audit verification. Therefore, unless otherwise specified in the contract, the direct labor charged by the contractor shall include only that which is consistent with the labor so classified in the terms of the contract agreement.

The auditors must examine the contractor’s cumulative locally incurred costs for the period audited. The contractor’s cost representation shall include cumulative contract costs by cost category incurred through the period audited. At a minimum, the auditors must:

1. Review locally incurred direct costs billed to and reimbursed by USAID. *A*llcosts that are not supported with adequate documentation or not in accordance with the contract terms must be reported as questioned.

 Questioned costs must be presented in two separate categories (a) *ineligible costs* that are explicitly questioned because they are unreasonable; prohibited by the contracts or applicable laws and regulations; or not program related; and (b) *unsupported costs* that are not supported with adequate documentation or did not have required prior approvals or authorizations. All material questioned costs resulting from instances of noncompliance with contract terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the explanatory notes within the audit report must briefly describe both material and immaterial questioned costs and must be cross-referenced to any corresponding findings in the report on compliance. The materiality level for questioned costs must be approved by RIG/F.

1. Verify that billed direct labor rates agree to the burdened rates contained within the contract agreement.
2. Review the indirect cost rates, if applicable, to verify that rates applied are based on negotiated or predetermined rates and applied to the appropriate direct cost input base. Overhead costs paid by USAID that exceed the negotiated rates shall be questioned.
3. Review general and project ledgers to determine whether contract costs incurred were properly recorded. Reconcile direct costs billed to and reimbursed by USAID to the project and general ledgers.
4. Review procurement procedures to determine that sound commercial practices including competition were used, reasonable prices were obtained, and there were adequate controls over the qualities and quantities received.
5. Determine whether allowances and fringe benefits received by employees are in accordance with the contracts and applicable laws and regulations. Unallowable salary charges must be questioned.
6. Perform tests to determine if the contractor’s incurred labor costs are supported by time sheets approved by the appropriate approval level per the terms of the contract.
7. Review travel and transportation charges to determine whether they are adequately supported and approved. Travel charges that are not supported with adequate documentation and not in accordance with contract terms and applicable regulations must be questioned. Perform tests to determine that the contractor obtained prior written approval from the USAID Contracting Officer’s Technical Representative for international travel related to the contract in accordance with AID Acquisition Regulation 752.7032.
8. Develop procedures to verify the contractor received approval by USAID before any modifications to the contract were made, if applicable.
9. Review commodities (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by the contractor to determine whether (a) the commodities are accounted for; (b) control procedures exist and have been placed in operation to adequately safeguard the commodities; (c) whether the commodities have been used for their intended purposes in accordance with the contracts; and (d) whether value added tax was paid on commodities. To determine if commodities were used for intended purposes, the auditor shall perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment. End-use reviews may include project site visits to verify that commodities exist and/or were used for intended purposes and in accordance with the terms of the contracts. The cost of all commodities unaccounted for or not used in accordance with the contracts must be questioned. In the report on compliance, the auditor shall explicitly disclose in a separate paragraph the results of the end-use review.
10. Perform tests to determine that the contractor complied with USAID policies that govern the use of vehicles and travel costs.
11. Develop procedures to determine whether the contractor complied with Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*. Compliance with EO 13224 can be considered satisfied if the contractor has complied with USAID/West Bank and Gaza’s vetting requirements and with the terms and conditions of applicable USAID Assistance and Acquisition Procurement Directives (AAPDs), Mission Orders, and Notices.

1. Determine whether the contractor complied with the Restriction on Taxing Foreign Assistance which maintains that U.S. Foreign Assistance shall not be subject by a foreign country to value added taxes (VAT) or customs duties (or that any such taxes charged be fully reimbursed). Any USAID funds used to pay VAT or customs duties must be reported as costs that shall be reimbursed back to USAID and a noncompliance finding shall be reported within the compliance report.
2. If applicable, for local contractors, when indirect costs are charged to USAID using provisional rates, review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with the contract terms and regulations. Indirect cost rates should be recalculated after all adjustments have been made to the pool and base. *[If the local contractor does not have a USAID authorized indirect cost rate, this test is omitted.]* When indirect costs are charged to USAID using predetermined or fixed rates, verify that the correct rates are applied in accordance with the agreement with USAID.

The auditors must generally express a single opinion on the contractor’s Cost Representation Statement that includes more than one contract with USAID. Auditors must not express separate opinions on cost representation statements of each activity/project unless specifically requested to do so by RIG/F.

**C. Internal Control**

Obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. In obtaining this understanding, understand the design of the internal control related to USAID programs and determine whether they have been placed in operation. The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1; 1999) may prove helpful in assessing the contractor internal control. The internal control must be described in the audit documentation.

Prepare the report required by the February 2009 Guidelines, identifying any significant deficiencies or material weaknesses in the design or operation of internal control.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness that is important enough to merit attention by those charged with governance. Any significant deficiencies or material weaknesses must be set forth in the report as "findings" (see paragraph 5.1.d of the OIG Guidelines dated February 2009).

Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses – may be reported in a separate management letter to the contractor and referred to in the report on internal control.

The major internal control components to be studied and evaluated include, but are not limited to, the controls related to each expense account on the cost representation statement.

1. Obtain an understanding of the design of the internal control related to USAID programs and determine whether they have been placed in operation.
2. Assess inherent risk and control risk, and determine detection risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. Control risk is the risk that a misstatement that could occur in a relevant assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected on a timely basis by the entity’s internal control. Detection risk is the risk that the auditor will not detect a material misstatement that exists in an assertion. Detection risk is based upon the effectiveness of an auditing procedure and the auditor’s application of that procedure.
3. Summarize the risk assessments for each assertion in a single document included in the audit documentation. The risk assessments should consider the following broad categories under which each assertion should be classified: (a) classes of transactions and events for the period under audit (occurrence, completeness, accuracy, cutoff, and classification), (b) account balances at the period end (existence, rights, obligations, completeness, valuation, and allocation), and (c) presentation and disclosure (occurrence, rights, obligations, completeness, classification, understandability, accuracy, and valuation). At a minimum, the audit documentation should identify the name of the account or assertion, the account balance or the amount represented by the assertion, the assessed level of inherent risk (high, moderate, or low), the assessed level of control risk (high, moderate, or low), the combined risk (high, moderate, or low), and a description of the nature, timing and extent of the tests performed based on the combined risk. Summary audit documentation should be cross-indexed to supporting audit documentation that contains the detailed analysis of the fieldwork. If control risk is evaluated at less than the maximum level (high), then the basis for the auditor’s conclusion must be described in the audit documentation. If you assess control risk at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of financial statements when such assertions are significantly dependent upon computerized information systems, the auditors must describe in the audit documentation the basis for such conclusions by addressing (i) the ineffectiveness of the design and/or operation of controls, or (ii) the reasons why it would be inefficient to test the controls.
4. Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasize the policies and procedures that pertain to the contractor’s ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the cost representation statement. This should include, but not be limited to, the control systems for:

d.1 Ensuring that charges to the program are proper and supported.

d.2 Managing cash on hand and in bank accounts.

d.3 Procuring goods and services.

d.4 Managing inventory and receiving functions.

d.5 Managing personnel functions such as timekeeping, salaries and benefits.

d.6 Managing and disposing of commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.) purchased either by the contractor or directly by USAID.

d.7 Ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the cost representation statement. The results of this evaluation should be contained in the audit documentation section described in paragraphs 4.18 thorough 4.20.k of the OIG Guidelines dated February 2009 and presented in the compliance report.

1. Evaluate internal control established to ensure compliance with cost sharing/counterpart contribution requirements, if applicable, including both provision and management of the contributions.
2. Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditors use in applying auditing procedures. This may include, for example, policies and procedures that pertain to non-financial data that the auditors use in analytical procedures.

In fulfilling the audit requirement relating to an understanding of internal control and assessing the level of control risk, follow, at a minimum, the guidance contained in AICPA SAS Nos. 109 (AU 314), entitled Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, 115 (AU 325), entitled Communicating Internal Control Related Matters Identified in an Audit, and 117 (AU801) entitled Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance.

**D. Compliance with Contract Terms and Applicable Laws and Regulations**

In fulfilling the audit requirement to determine compliance with contract terms and applicable laws and regulations related to USAID programs and projects, the auditors must follow, at a minimum, guidance contained in AICPA SAS No. 117 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance.* The auditor's report on compliance must set forth as findings all significant violations of provisions of the contract agreement and applicable laws and regulations that could have a direct and material effect on the contractor’s cost representations. Nonmaterial instances of noncompliance shall be included in a separate management letter to the contractor and referred to in the report on compliance. The materiality level used for reporting instances of noncompliance is subject to approval by the RIG/F.

The auditor's report shall include all conclusions that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, or other noncompliance, the auditors shall place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified shall be related to the universe or the number of cases examined and is quantified in terms of U.S. dollars, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 4 of *U.S. Government Auditing Standards*. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of *U.S. Government Auditing Standards* provides guidance on factors that may influence auditor's materiality judgments. If the auditor finds indications of fraud or illegal acts they must promptly email RIG/F and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.

In planning and conducting the tests of compliance the auditors must:

1. Identify the contract terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the contractor’s cost representation. The auditors must:

 a. list all standard provisions and special provisions, if applicable, contained in the contracts as well as project-specific provisions contained in the contracts that cumulatively, if not observed, could have a direct and material effect on the contractor’s cost representation;

 b. assess the inherent and control risk that materialnoncompliance could occur for each of the compliance requirements listed in 1.a. above;

 c. determine the nature, timing, and extent of audit steps and procedures to test for errors, fraud, and illegal acts that provide reasonable assurance of detecting both intentional and unintentional instances of noncompliance with contract terms and applicable laws and regulations that could have a material effect on the contractor’s cost representation, based on the risk assessment in 1.b. above and

 d. prepare a summary working paper that adequately identifies each of the specific compliance requirements included in the review, the results of the inherent, control, and combined (detection) risk assessments for each compliance requirement, the audit steps used to test for compliance with each of the requirements based on the risk assessment, and the results of the compliance testing for each requirement. The summary working paper shall be cross-indexed to detailed working papers that adequately support the facts and conclusions contained in the summary working paper.

1. Determine if payments have been made in accordance with contract terms and applicable laws and regulations.
2. Determine if funds have been expended for purposes not authorized or not in accordance with applicable contract terms. If so, the auditors must question these costs.
3. Identify any costs not considered appropriate, classifying and explaining why these costs are questioned.
4. Perform End-Use Review procedures. Determine whether commodities exist and used for their intended purposes in accordance with the terms of the contract. If not, the cost of such commodities must be questioned. In the report on compliance, the auditor shall explicitly disclose in a separate paragraph the results of the end-use review.
5. Determine if those who received services and benefits were eligible to receive them.
6. Determine whether the contractor’s financial reports and claims for reimbursement contain information that is supported by the books and records.
7. Determine whether the contractor complied with Executive Order 13224 - Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism. Compliance with EO 13224 can be considered satisfied if the contractor has complied with USAID/West Bank and Gaza’s vetting requirements and with the terms and conditions of applicable USAID Assistance and Acquisition Procurement Directives (AAPDs), Mission Orders, and Notices. To examine compliance with USAID/West Bank and Gaza Notice No. 2009-WBG-11, dated June 30, 2009, the auditors must ensure that:
	* + The three mandatory clauses are included in the body of sub-awards above the signature line. The three mandatory clauses are for (1) prohibition against support for terrorism, (2) prohibition against cash assistance to the Palestinian Authority; and (3) restriction on facilities names. Alternatively, if the mandatory clauses are included as an attachment to the sub-awards, the auditors should ensure that there is a reference to the attachment in the body of the sub-awards, and the attachment reference to the sub-awards.
		+ USAID partners disclosed the reasons for not incorporating the mandatory clauses into the sub-awards at the time of the award, if applicable, and
		+ USAID partners certified that the information pertaining to the sub-awards is complete and accurate.
8. Determine whether the contractor complied with the Restriction on Taxing Foreign Assistance which maintains that U.S. Foreign Assistance shall not be subject by a foreign country to value added taxes (VAT) or customs duties (or that any such taxes charged be fully reimbursed). Any USAID funds used to pay VAT or customs duties must be reported as ineligible costs in the auditor’s report and cited as a non-compliance.

**E. Indirect Cost Rates**

For U.S. contractors, if records are accessible locally, the auditors should determine if the contractor correctly applied the USAID authorized indirect cost rates to charge indirect costs to USAID for the period audited.

For local contractors, the audit of the indirect cost rate application should include tests to determine whether the:

1. Distribution or allocation base is in compliance with the governing USAID Negotiated Indirect Cost Rate Agreement, if applicable.

2. The contractor retroactively applied a final indirect cost rate, if one has been authorized by USAID and the provisional indirect cost rate does not equal the final indirect cost rate.

4. Indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated.

5. Indirect costs included in this calculation reconcile with the indirect costs shown in the contractor’s Cost Representation Statement.

The results of the audit of the application of indirect cost rate should be presented in a supplemental schedule to the Cost Representation Statement. This schedule should contain (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the resultant indirect cost rate calculation. The costs in the schedule should reconcile with the indirect costs expenditures shown in the contractor’s Cost Representation Statement.

**F. Follow-up on Prior Audit Recommendations**

The auditors shall review the status of actions taken on findings and recommendations reported in prior pre-award survey, financial reviews, and audits of USAID-funded programs. Chapter 4 of *Government Auditing Standards,* under the section entitled *Considering the Results of Previous Audits and Attestations Engagements*, states: "Auditors shall consider the results of previous audits and attestation engagements and follow up on known significant findings and recommendations that directly relate to the objectives of the audit being undertaken”.

The auditors must review and report on the status of actions taken on prior findings and recommendations in the summary section of the audit report. The auditors shall request from the contractor the most recent audit report for the same contract (for a follow-up audit) or other USAID contracts (for an initial audit). When corrective action has not been taken and the deficiency remains unresolved for the current audit period and is reported again in the current report, the auditors need to briefly describe the prior finding and status and show the page reference to where it is included in the current report. If there were no prior findings and recommendations, the auditors must include a note to that effect in this section of the audit report.

**G. Other Auditor Responsibilities**

The auditors must perform the following steps:

1. Hold entrance and exit conferences with the contractor. USAID/West Bank and Gaza, and representatives from the contractor must be notified of these conferences in order that each organization will be represented. The auditors must ensure the availability of the means for each organization to attend these conferences telephonically.
2. During the planning stages of an audit, communicate information to the auditee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Such communication shall state that the auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting. This communication should be in the form of an engagement letter. Auditors shall document the communication in the working papers. If the contractor does not provide access to books and records in a timely matter, the auditors must inform USAID/WBG copying the RIG/F immediately by a written communication (email) stating which books and records to which access was requested, when the request was made, whom the request was made to, and the contractor’s response. If the USAID/WBG could not resolve the matter within a reasonable time, and the auditors still cannot gain access to the contractor’s books and records then the auditors must contact the RIG/F to determine if the audit shall continue.
3. Institute quality control procedures to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the subject matter. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:

a. Reports and supporting working papers are reviewed by an auditor, preferably at the partner level, who was not involved in the engagement. This review must be documented.

b. All quantities and monetary amounts involving calculations are footed and cross-footed.

c. All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting working papers.

1. Ascertain, before preparing the proposal for the audit engagement (or if this is not possible, at the earliest opportunity during the engagement itself), whether the contractor ensured that audits of its sub-awardees were performed to ensure accountability for USAID funds passed through to sub-awardees. If sub-awardees audit requirements were not met, the auditors should immediately notify the USAID/WBG mission.
2. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333) signed by the contractor's management. See Example 4.1, of the Revised OIG Guidelines dated February 2009, for an illustrative management representation letter.
3. Provide USAID/WBG with a written letter that attests to the audit firm's independence and absence of any conflict of interest with respect to the auditee before field work starts.
4. Upon completion of the fieldwork, the auditor will present the contractor with all findings that will be included in the draft report. These findings shall be in writing, and a copy shall be left with the contractor for reference and follow-up.
5. Submit a draft report to the auditee for review and preparation for the exit conference, at least five working days before the exit conference. If the scope of the audit as disclosed in section I “Title”, covers a prime and its sub-contractor(s), the audit firm shall issue a separate report for each entity.
6. Coordinate with the auditee and the USAID/WBG point of contact to schedule and hold the exit conference.

**IV. AUDIT REPORTS**

The auditors shall submit to the auditee one Adobe Acrobat® (\*.pdf) file containing the scanned image of the draft audit report in English. The auditee shall submit the draft report to the USAID/WBG via e-mail at WBGPCA@usaid.gov to prepare for the exit conference if USAID/WBG plans to attend.

Once the auditors issue the final draft report to the auditee, the auditee shall submit the same report to USAID/WBG for general review. USAID/WBG will then submit the signed final draft report via email to the RIG/F for technical review and issuance.

The scanned copy will be a faithful copy of the original signed audit reports, and will by definition reproduce all signatures and letterheads. The scanner shall be set to the lowest resolution that can easily be read, to minimize the size of the electronic files. The report shall:

1. Contain a title page, table of contents, transmittal letter and a summary which includes: (1) a background section with a general description of the project to include the contractor’s responsibility under the project, the project termination date, and a clear identification of all entities mentioned in the report, (2) the period covered, and whether the contractor has a USAID or other U.S. Government agency-authorized provisional or final indirect cost rate agreement; (3) the objectives and scope (the amount audited shall be explicitly stated) of the audit and a clear explanation of the procedures performed and the scope limitations, if any; (4) a brief summary of the audit results on the contractor’s cost representations, questioned costs, internal control, compliance with contract terms and applicable laws and regulations (the contractor’s compliance or noncompliance with Executive Order 13224 must be explicitly stated), indirect cost rates, and status of prior pre-award survey, financial reviews, and audit recommendations; and (5) a brief summary of the contractor’s management comments regarding their views on the audit results and findings, as well as any additional supporting documentations submitted by the contractor in their management response for final determination regarding any given finding identified by the auditors.
2. Contain the auditor's report on the contractor’s cost representation statement, identifying any material questioned costs not fully supported with adequate records or not eligible under the terms of the contracts as illustrated in Attachment I. The report must be in conformance with the standards for reporting in Chapter 4 of the U.S. *Government Auditing Standards* and must include:

 1. The auditor's opinion on whether the contractor’s costs are allowable, reasonable, and allocable to the contract in accordance with the terms of the contract. This opinion must clearly state that the audit was performed in accordance with U.S. *Government Auditing Standards*. Any deviations from these standards, such as noncompliance with the requirements for continuing professional education and external quality control reviews, must be disclosed (see Example 7.1.A of the *Guidelines*). The materiality threshold for reporting is subject to approval by RIG/F.

 2. A statement identifying the cumulative contract costs incurred and billed to USAID for the period audited. The statement must also identify questioned costs not considered eligible for reimbursement and unsupported.

 All material questioned costs resulting from instances of noncompliance with contract terms and applicable laws and regulations must be included as findings in the report on compliance. Also, material and immaterial questioned costs must be briefly described in the explanatory notes to the statement of costs cross-referenced to any corresponding findings in the report on compliance (see Example 6.1 of the *Guidelines*). All questioned costs must be stated in U.S. dollars. The U.S. dollar equivalent shall be calculated at the exchange rate applicable at the time the local currency was disbursed.

 3. Explanatory notes for the cost schedule, including a summary of the significant accounting policies, explanation of the most important items, the exchange rates during the audit period and foreign currency restrictions, if any.

1. Contain the auditor's report on internal control. The auditor's report must include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal control and in assessing the control risk, and; (2) the reportable conditions, including the identification of material weaknesses in the contractor’s internal control. Reportable conditions must be described in a separate section (see paragraphs 5.2 through 5.4 of the *Guidelines*). This report must be made in conformance with SAS No. 115 and the standards for reporting in Chapter 4 of U.S. *Government Auditing Standards.*

Nonreportable conditions shall be communicated to the contractor in a separate management letter which shall be referred to in the report on internal control and sent with the audit report (see Examples 7.2.A and 7.2.B of the OIG *Guidelines dated February 2009*). The determination of which conditions are reportable is subject to approval by RIG/F.

1. Contain the auditor's report on the contractor’s compliance with contract terms and applicable laws and regulations related to USAID-funded programs and projects. The report must follow the guidance in SAS No. 117. Material instances of noncompliance (those that have a direct and material effect on the cost representations for the period audited) must be reported in a separate section (see paragraphs 5.2 through 5.4 of the *Guidelines*). Results of audit procedures performed to determine compliance with the Executive Order 13224 shall be reported in the report of compliance. Nonmaterial instances of noncompliance shall be communicated to the contractor in a separate management letter, which shall be sent with the audit report (See Examples 7.3.A and 7.3.B of the *Guidelines*). All material questioned costs resulting from instances of noncompliance must be included as findings in the report on compliance and cross-referenced to the statement of costs. The materiality threshold for reporting instances of noncompliance is subject to approval by RIG/F.

To the extent possible when presenting the audit findings the auditors shall develop the elements of criteria, condition, cause, and effect to assist management or oversight officials of the audited entity in understanding the need for taking corrective action. In addition, if auditors are able to sufficiently develop the findings, they shall provide recommendations for corrective action.

The auditor's report shall include all conclusions, based on evidence obtained, that a fraud or illegal act either has occurred or is likely to have occurred. This report shall include an identification of all questioned costs, if any, as a result of fraud or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected and whether the contractor does or does not agree with the findings and questioned costs. Abuse that is material, either quantitatively or qualitatively, must also be reported.

 In reporting material fraud, illegal acts, or other noncompliance, the auditors must place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified shall be related to the universe or the number of cases examined and is quantified in terms of U.S. dollars, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards in the U.S. *Government Auditing Standards*. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. The U.S. *Government Auditing Standards* provide guidance on factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of fraud or illegal acts exist, they must contact the RIG/F and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.

1. If applicable, for local contractors, contain the schedule of application of indirect cost rate and the auditor's report on the schedule of application of indirect cost rate. This should be a separate report prepared in accordance with guidance set forth in SAS No. 29 (AU551). This schedule is omitted if the contractor does not have a USAID authorized indirect cost rate
2. Contain the auditor's comments on the status of last audit recommendations. The auditors shall review and report on the status of actions taken on findings and recommendations reported in the prior pre-award survey, financial review, and audit. When corrective action has not been taken and the deficiency remains unresolved for the current audit period and is reported again in the current report, the auditors need only briefly describe the prior finding and show the page reference where it is included in the current report. If there were no prior findings and recommendations, a note to that effect must be included in this section of the audit report.

The findings contained in the reports should include a description of the condition, criteria, the cause and effect must be included in the findings. In addition, the findings must contain a recommendation that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance may not always have all of these elements fully developed, given the scope and objectives of the specific audit. But at least the auditors must identify the condition, criteria and possible asserted effect to provide sufficient information to management to permit them to determine the effect and cause in order to take timely and proper corrective action.

Findings which involve monetary effect must be quantified and reported as questioned costs. The findings shall be reported without regard to whether the conditions giving rise to them have been corrected and whether the contractor does or does not agree with the findings or questioned costs. In addition, the findings must contain adequate information necessary to facilitate the audit resolution process (i.e., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

The reports must also contain, after each finding, pertinent views of responsible contract officials concerning the auditor's findings and actions taken by the contractor to implement the recommendations. If possible, the contractor’s views shall be obtained in writing. When the comments of the contractor oppose the findings, conclusions, or recommendations, and are not in the auditor's opinion valid, the auditors must state following the contractor's comments their reasons for rejecting them. Conversely, the auditors shall modify their report if they find the comments valid.

Any evidence of fraud or illegal acts that have occurred or are likely to have occurred shall be included in a separate written report if deemed necessary by RIG/F. This report must include an identification of all questioned costs as a result of fraud or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether the contractor does or does not agree with the findings and questioned costs.

1. **INSPECTION AND ACCEPTANCE OF AUDITOR’S WORK AND THE REPORT**

RIG/F is responsible for assuring that the work performed under this statement of work complies with U.S. *Government Auditing Standards* and the USAID OIG *Guidelines.* To accomplish this objective, the RIG/F will perform desk reviews on every final report and will perform quality control reviews of the working papers of a sample of audit reports received from the independent auditors. The audit firm must ensure that all records related to the USAID program are available, and must provide any necessary photocopies requested by the RIG auditors to enable them to complete and support their review. If RIG/F does not accept the report because of deficiencies in the work, the public accounting firm shall perform any additional work requested by RIG/F at no cost. RIG/F will notify the auditee through the USAID/WBG to withhold final payment for any work it determines to be substandard until acceptable corrective actions are taken.

The final audit report will be subject to approval and acceptance by RIG/F.

**VI. RELATIONSHIPS AND RESPONSIBILITIES**

The client for this contract is the auditee. The audit firm will work in coordination with the auditee. The liaison for audit concerns will be RIG/F and the liaison for information and assistance from USAID/West Bank and Gaza will be the USAID/WBG controller or his/her designee.

The audit firm shall provide a list of key/essential personnel who will be directly involved with this contract to the auditee. All key/essential personnel shall be fluent in the English language. Unless otherwise agreed to in writing by the auditee, the audit firm shall be responsible for providing such personnel for performance at the level-of-effort and for the term required. Failure to provide the key/essential personnel may be considered nonperformance by the audit firm unless such failure is beyond the control, and through no fault or negligence of the audit firm. The audit firm shall immediately notify the auditee and the USAID/WBG of any key/essential personnel's departure and the reasons therefore. The audit firm shall take steps to immediately rectify this situation and shall propose a substitute candidate for each vacated position along with an impact statement in sufficient detail to permit evaluation of the impact on the program.

The auditors may request from USAID a list of all milestone reimbursement payments made to the subject contractors.

USAID/WBG may also provide written comments on the draft audit report concerning the facts and conclusions contained in the report in order to obtain the best possible end product. USAID representatives may also attend the exit conference for the same purpose. However, the USAID comments on the draft report and at the exit conference will not be binding on the public accounting firm.

The public accounting firm must properly maintain and store the working papers for a period of three years from the completion of the engagement. During this three-year period the audit firm shall immediately provide the working papers when requested by RIG/F. Public accounting firms that are not responsive or do not provide timely responses to questions raised by RIG/F shall be temporarily or permanently excluded from performing additional engagements and or audits.

**VII. TERMS OF PERFORMANCE**

The period of performance of this contract is *[Insert time frame for audit firm to complete the audit engagement. Keep in mind that the final draft report is due to USAID/WBG no later than seven months from the date of the audit notification letter or the end of the audited period, whichever is later]* months from the audit contract date until the audit firm issues the final draft audit report. Nonetheless, the audit firm remains obligated to perform per this scope of work and under the audit contract until the RIG/F issues the final audit report to the USAID/WBG Mission or two years from the date of the audit contract, whichever is earlier or comes first.

The audit firm shall coordinate the engagement from the entrance conference through the issuance of the final audit report with the auditee copying the USAID/WBG point of contact or WBGPCA@usaid.gov on all communications to keep him/her informed at all times.

It is the responsibility of the audit firm to communicate to the auditee all necessary information regarding records and documentation which will be required for the audit firm to begin its work in accordance with the approved work schedule.

The audit firm and the auditee are both/all responsible for the timely performance and submission of the audit report(s) to USAID/WBG.

**VIII. PAYMENT AND BUDGET:**

Payment terms of audit fees are to be negotiated and agreed upon between the partner/auditee and the audit firm.

* For close-out audits, the partner/auditee and the audit firm may negotiate and agree to payment terms of up to 100% of the agreed upon fees to be paid upon issuance of the final draft report by the audit firm to the partner/auditee.
* For all non-close-out audits, at least 10% of the agreed upon fees must be withheld by the partner/auditee until issuance of the final report by the RIG, whereas negotiated payments of up to 90% of agreed upon fees can be paid before and/or upon issuance of the final draft report by the audit firm to the partner/auditee.